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Federal Communications Commission Office of the Secretary

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Ompetition PO Box 2133 Columbus, OH 43216-2133



Competition Ohio
PO 8ox 2133
Columbus. OH 43216-2133
1-877-729-0122 ■ fax 1-877-349-8813
www.cornpeiitionohio.org

## ORIGINAL

October 1,2002

The Honorable Michael Powell Chairman Federal Communications Commission 445 12<sup>th</sup> Street, SW Washington, DC 20554 CC Docket No. 96-98

## Re. Local Phone Competition/Unbundled Network Elements

Dear Chairman Powell:

Ohio consumers applaud the Federal Communications Commission's implementation of the Telecommunications Act of 1996. The Telecom Act is finally beginning to work, and consumers are starting to have choices in local phone service and enjoy the benefits of that competition. In response to emerging competition, SBC Ameritech is reducing prices and/or offering discounts in Michigan and Ohio that will save consumers hundreds of millions of dollars a year.

In Ohio, local phone competition was at a virtual standstill until a few months ago when the Public Utilities Commission of Ohio (PUCO) completed a five-year review of wholesale prices and ordered SBC Ameritech to reduce prices for unbundled network elements (UNEs). In response, at least half a dozen companies – including AT&T, MCI, and Talk America – began offering service to residents and small businesses.

Now SBC and other Bell companies want to eliminate pro-competitive policies that allow local phone competition and price cuts to occur. SBC says it faces financial ruin, and won't be able to maintain its current network or invest in new facilities, if competitors continue to access the phone network at current rates. Not only are these claims unproven, substantial evidence indicates they are false.

Information SBC provides to Wall Street shows SBC is financially sound and well positioned for the future. SBC reported a 42.1 percent wireline operating margin in the second quarter of 2002. (This is consistent with an, analysis **by** the Phoenix Center for Advanced Legal and Economic Public Policy Studies that indicates current wholesale rates provide Bell companies with a 40 percent wireline operating margin). At the Banc of America Securities 32<sup>nd</sup> Annual Investment Conference, SBC said it earned \$41 billion in annual revenues from wireline operations and that its balance sheet "is second to none."



SBC and other Bell companies bppose UNEs because they work – they brought competition to long-distance markets and are beginning to bring competition to local phone markets. It is both foreseeable and reasonable for the Bells to lose monopoly market share, and for their margins to decline from "monopoly rent" levels to normal levels, as a consequence of competition.

The argument that competition is "artificial" or "unfair" because UNE prices are below the Bells' cost of servicing leased lines is spurious. The U.S. Supreme Court upheld TELRIC methodology in the *Verizon* case and most state utilities commissions are producing similar UNE pricing using this methodology. It is highly unlikely all these commissions are wrong, particularly after undergoing hundreds of hours of adversarial hearings and analyzing thousands of pages of evidence. Moreover, the Bells have not offered credible evidence to substantiate the claim that UNE prices are below their cost of servicing leased lines. The fact that they offer lines to retail customers for half of what they say it costs to service leased lines shows the alleged costs are highly exaggerated.

The Telecom Act is working as planned, albeit belatedly, and consumers are benefiting. *Competition Ohio* strongly urges the FCC to resist lobbying by the Bells to change the Telecom Act and rules that are successfully promoting competition. Staying the course will deliver on promises made to consumers and make telecommunications markets more efficient and innovative.

Sincerely,

William Schuck Executive Director

William Shork

Competition Ohio

Competition Ohio is a coalition & over 260 members that support competition in telecommunications to improve service, lower prices, and enhance technological development.